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AZ CORP COMMISSION  
DOCKET CONTROL

**ARIZONA CORPORATION COMMISSION**

April 19, 2017

2017 APR 19 A 8:14

To: Docket Control

From: Elijah Abinah, Acting Director, Utilities Division

A handwritten signature in blue ink, appearing to read "Elijah Abinah".

RE: April 11, 2017 Letter to Docket Nos. E-01345A-16-0123; E-01345A-16-0036

Staff would like to acknowledge receipt of Commissioner Burns' April 11, 2017 letter to parties, including Staff, Arizona Public Service Company ("APS"), the Residential Utility Consumer Office ("RUCO"), and other stakeholders in these Dockets. Commissioner Burns' letter posed a myriad of questions to the parties including a set of specific questions directed to APS, RUCO, the Energy Freedom Coalition of America ("EFCA") and the Utilities Division Staff concerning the Settlement Agreement ("Agreement") reached by many of the parties to these Dockets. This letter and its attachment are in response to the questions that were directed specifically to Staff.

As a Signatory to the Agreement, Staff supports the Settlement Agreement as proposed and recommends adoption of the Settlement Agreement. Paragraph 39.4 of the Agreement recognizes that the Commission will independently consider and evaluate the terms of the Agreement. In this regard, the Commission may adopt, reject or modify its terms. However, Paragraph 39.5 of the Settlement Agreement states to the extent a Signatory views a modification as a material change to the Agreement, that party has a right to withdraw from the Agreement. Adoption of all material terms by the Commission constitutes approval of the Agreement.

Several questions that were posed to Staff appear to inquire as to the rationale behind Staff's support for the Settlement Agreement in light of different positions advocated by Staff in its pre-Settlement testimony. As a general response to these questions, a settlement involves give and take and oftentimes results in positions that reflect a compromise between the diverse interests involved. Staff believes that when viewed as a whole, adoption of the Agreement produces a fair, just and reasonable outcome that is in the public interest.

Finally, parties are precluded from disclosing matters discussed during settlement negotiations including the parties' positions related to the compromises achieved. Staff has attempted, in responding to Commissioner Burns' questions to provide the information sought but at the same time ensuring that Staff does not reveal anything that was discussed during settlement negotiations.

Arizona Corporation Commission

**DOCKETED**

APR 19 2017

DOCKETED BY

A handwritten signature in blue ink, appearing to read "GB".

On this 19th day of April, 2017, the foregoing document was filed with Docket Control as a Utilities Division Correspondence, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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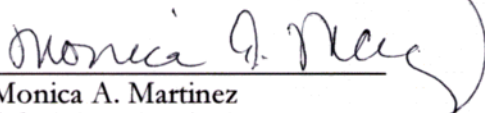
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By:

  
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Administrative Assistant



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1. Section II calls for a rate case stay-out until June 1, 2019. That is less than 2 years from the requested date for new rates. The last rate case also had a stay-out requirement and APS stayed out even longer than the requirement in that last case.
  - a. Does Staff truly believe that if this Settlement Agreement is approved with no modifications, that APS would be filing its next rate case prior to June 1, 2019, without the Section II provision? If yes, please explain why.
  - b. Why should the Commission not require APS to refrain from filing its next rate case until no earlier than June 1, 2020, with a test year no earlier than December 31, 2019, with new rates from that rate case not becoming effective earlier than July 1, 2021?

**RESPONSE:**

- a. There is no provision in the rules prohibiting APS from filing another rate case prior to June 1, 2019. Staff does not have knowledge whether, in the absence of this provision in the Agreement, APS would file another rate case prior to June 1, 2019. However, with this provision APS has agreed not to file another rate case any sooner than June 1, 2019 unless there are circumstances that would trigger the application of Section 38 of the Agreement.
- b. Staff and the other Settling Parties agreed to the June 1, 2019 date, after consideration of numerous factors. The Commission in its discretion can accept, reject, or modify this provision, however to the extent a Signatory believes the change is a material modification to the Agreement, that Signatory would have the right to withdraw from the Agreement.

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2. In its direct testimony, Staff recommended a zero increase (with an alternative recommendation of a \$26 million decrease). The Settlement Agreement results in a net base rate increase of \$94.624 million (paragraph 3.1).
- a. Why did Staff agree to a net base rate increase of over \$94 million greater than recommended in its direct testimony (\$ 120 million greater than the alternative)?
  - b. Does Staff believe that its direct testimony recommendation for a zero increase (or alternative \$26 million net base rate decrease) was flawed?

**RESPONSE:**

- a. Staff's adoption of a position in settlement that varies from a position taken in direct pre-filed testimony is a reflection of the give and take nature of settlement processes. Whenever Staff enters a settlement, Staff evaluates the potential for success on the merits of any particular filed position relative to a compromise position that has been offered for settlement of the particular issue. Staff's ultimate adoption of a compromise position on one matter may be part of securing concessions with respect to other Staff recommendations as part of a larger settlement. As part of the analysis Staff performs to provide a reasonable recommendation for the Commission's consideration, Staff strives to attain a final settlement agreement that is reasonable and balanced for all parties, signatories and non-signatories alike. Staff believes the provisions of the Agreement produce a fair, just and reasonable outcome that is in the public interest.  
  
Staff considered several factors, including but not limited to the initial testimony filed by other parties in the case and subsequent data and information received from the Company. From a litigation perspective in light of recent Commission decisions regarding other utilities, the inclusion of post test-year plant, return on equity, and the return on the fair value increment, there was a strong likelihood that the rate increase in this case would be very comparable to what is being recommended in the Agreement.
- b. No. Staff's recommendation in its pre-filed direct testimony was based on the best information and data available at the time. Staff also considered the positions of other parties to the case and information provided in their testimony as well as additional information and data provided by APS. For instance, as the case progressed, Staff was able to use known and measurable data to verify a larger portion of the Company's requested post-test year plant which accounts for a significant portion of the net base rate increase in the Agreement.

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3. Settlement Agreements are a result of give and take (see paragraph 40. 1).
- a. What did Staff receive in this Settlement Agreement for agreeing to a \$94.624 million net base rate increase (as opposed to zero or a \$26 million decrease) that Staff would not have received without this Settlement Agreement? Please explain in detail.

**RESPONSE:**

- a. Staff believes the Agreement overall contains significant benefits. Those benefits are set forth on page 18 of the testimony of Elijah Abinah in support of the Agreement and in Section 1.5 of the Agreement. Further, the amount of the rate increase recommended in the Agreement is significantly less than the net base rate increase originally requested by the Company of approximately \$165.9 million.



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4. Paragraph 3.4 requires APS to impute net revenue growth for any revenue producing plant included in post-test year plant.
- a. Did APS meet this requirement in this current rate case? If no, please explain in detail why not.
  - b. Is this requirement not something that should be done just as common practice? If no, please explain in detail why not. If yes, please explain in detail why common practice (i.e., common sense) is something that should be stated as a requirement in this Settlement Agreement.

**RESPONSE:**

- a. No. Some of the post test-year plant included in this case is revenue producing.
- b. Yes. From Staff's perspective this is something that should always be considered with the inclusion of post test-year plant in rate base. Specifically, if post-test year revenue producing plant is placed in rate base, credit for the revenues should also be included in the revenue requirement analysis.

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5. Paragraph 4.1 states that the average bill increase for residential customers will be 4.54%.
- a. Please explain in detail how this average was obtained/calculated.
  - b. What does this average increase mean in relation to customer usage, i.e., how does this relate to a customer that uses 800kWh per month equally throughout the day as opposed to one that uses 800kWh but mostly between 3:00pm and 8:00pm'?

**RESPONSE:**

- a. The average bill increase of 4.54% for residential customers was calculated by APS, and is referenced in APS's response to this question.
- b. Staff does not have the data necessary to perform this calculation at this time. Since the source of the information necessary to respond to this question is the Company, Staff would refer the reader to the Company's response to this question. However, from a general perspective, a customer that takes advantage of off-peak hours when using energy, may likely experience a lower bill.

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6. Please provide a table of example residential bills based on different customer usage. This table should include usage amounts beginning at zero and ending with the maximum usage showing the bills at each 10% increment of the percentage of customer bills for the three most widely used residential rate plans (for a total of 36 bills). This table should compare the bills under existing rates and those rates contemplated in the first year in the Settlement Agreement. Assume customers choose the new rate plan that is most like their existing rate plan.

**RESPONSE:**

Staff does not have all of the data necessary to perform this calculation at this time. Since the source of all of this information is APS, Staff would refer the reader to APS's response to this question.



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7. Paragraph 4.2 states that \$15 million of DSMAC will be refunded during the first year of new rates. Please provide the same table requested above, with the same customers, but for year 2 (i.e., after DSMAC refund ends) of new rates contemplated by the Settlement Agreement.

**RESPONSE:**

Staff does not have all of the data necessary to perform this calculation at this time. Since the source of all of this data is APS, Staff would refer the reader to APS's response to this question.

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8. Section V of the Settlement Agreement deals with Cost of Capital.
- a. Does Staff believe that equity is higher cost than debt?
  - b. Why is there nothing in this Settlement Agreement calling for APS to move to a capital structure that is closer to 50/50?
  - c. All other things remaining unchanged, what would the net base rate increase be in this Settlement Agreement if a hypothetical capital structure of 50/50 is used in this case?

**RESPONSE:**

- a. Yes.
- b. Staff generally recommends the use of a company's actual capital structure as long as it is reasonably balanced.
- c. Since Staff did not propose a hypothetical capital structure in this case, Staff has not performed this calculation. As noted in part A, debt generally has a lower cost than equity, so, all other remaining unchanged, use of a 50/50 debt/equity capital structure would tend to produce a lower return requirement than a 44.2%/55.8% debt/equity capital structure.

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9. Paragraph 5.2 establishes a return on equity ("ROE") of 10.0%. In its direct testimony, Staff recommended an ROE of 9.35%.
- a. Why did Staff agree to a higher ROE than it recommended in its direct testimony?
  - b. Does Staff believe that the ROE recommended in its direct testimony was flawed?

**RESPONSE:**

- a. Staff's adoption of a position in settlement that varies from a position taken in direct pre-filed testimony is a reflection of the give and take nature of settlement processes. Whenever Staff enters a settlement, Staff evaluates the potential for success on the merits of any particular filed position relative to a compromise position that has been offered for settlement of the particular issue. It should also be borne in mind that Staff's ultimate adoption of a compromise position on one matter may be part of securing concessions with respect to other Staff recommendations as part of a larger settlement. As part of the analysis Staff performs to provide a reasonable recommendation for the Commission's consideration, Staff strives to attain a final settlement agreement that is reasonable and balanced for all parties, signatories and non-signatories alike. Staff believes the provisions of the Agreement produce a fair, just and reasonable outcome that is in the public interest. Based upon an analysis of recent rate cases and the return on equity approved in those cases; Staff believed that there was a good likelihood that a 10% return on equity in this case would be found acceptable by the Commission for APS. The return on equity in the Agreement is also less than that requested by the Company which was 10.5 percent.
- b. No. The ROE recommended by Staff in its Direct Testimony was not flawed.



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10. Paragraph 5.3 calls for a 0.8% return on the fair value increment.
- a. Does Staff believe that the Commission is legally required to give APS a return (i.e., something greater than zero) on the fair value increment? If yes, please explain in detail.
  - b. Does Staff believe that it would be illegal for the Commission to find that it considered the fair value increment and that in doing so, that it agrees with Staff witness Parcell that the fair value increment is not investor supplied capital and therefore should be granted a zero return on the fair value increment? Please explain in detail.
  - c. All other things remaining unchanged, what would the net base rate increase be in the Settlement Agreement if the return on the fair value increment is zero, 0.1%, 0.3%, 0.5% 3% and 0.7%?
  - d. What overall rate of return on the original cost rate base results from the operating income agreed to in the Settlement Agreement?
  - e. While recognizing no fair value increment in the capital structure or rate base and using a capital structure comprised of 55.8% equity and 44.2% debt at 5.13%, what cost of equity provides the same operating income as the Settlement Agreement?

**RESPONSE:**

- a. No, Staff's expert has typically offered fair value increment alternatives in cases including a return of zero on the fair value increment because the fair value increment is not investor supplied capital. Staff will typically select a value within the range of alternatives based upon what it believes is appropriate in that case.
- b. No. See response to a. above.
- c. Staff's original analysis included a fair value increment return range from 0.00% to 0.50%. Staff has not performed the calculations called for in this question. However, Staff will ask its expert witness to perform these calculations and Staff will update its filing with this information when it becomes available.
- d. Staff has been unable to respond to this question and others in this section without additional time. Staff will ask its expert witness to perform the calculation called for in this question and will update its filing with this information when it becomes available.
- e. Staff has not performed this calculation at this time. Nonetheless, Staff will ask its expert witness to perform the requested calculation and when it becomes available Staff will update its filing.

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11. Section VII of the Settlement Agreement deals with the Fuel and Power Supply Adjustor ("PSA"). The APS application requested that the cost of water be included in the PSA. There is no mention of including water costs in the Settlement Agreement.
- a. Does this mean the cost of water is excluded from the PSA?

**RESPONSE:**

- a. Yes, the Agreement does not provide for the inclusion of the cost of water in the PSA calculation.

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12. Paragraph 7.2 allows the inclusion of costs for lime, ammonia and sulfur in the PSA.
- a. Are these costs currently allowed? If no, why not? If yes, why is paragraph 7.2 needed?

**RESPONSE:**

- a. No, these expense items are currently recovered in APS's base rates and are not currently being recovered by APS through its PSA. The Company requested their inclusion in this case. Staff supported the inclusion of these costs as part of electric generation in its Direct Testimony. The Commission has also approved the inclusion of chemical costs in the PSA in other recent rate cases.



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13. Paragraph 7.3 permits the inclusion of third-party storage expenses.
- a. Would Staff be opposed to making the required filing 180 days prior instead of 90 days prior to any contract becoming effective?
  - b. If the 90-day provision is approved by the Commission, could the third-party storage expenses be included without Commission approval? If not, why is any time-frame for filing required?

**RESPONSE:**

- a. Staff supports the 90 day period set forth in the Agreement.
- b. No. The language in 7.3 is intended to provide for approval of third-party storage expenses on a timely basis and at the same time give the Commission, Staff and other parties adequate time to review and make any recommendations regarding any third-party storage expenses before they are considered for approval by the Commission for inclusion in the PSA.

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14. In its direct testimony, Staff was opposed to including third-party storage expenses at this time.
- a. What has changed since the filing of Staff's direct testimony, that Staff is now not opposed to these costs?

**RESPONSE:**

- a. Staff's position in its Direct Testimony is not inconsistent with the Agreement. Staff witness Smith in his Direct Testimony opposed the inclusion of these expenses because the Company had not provided any estimates of its costs in this regard. He recommended that the Commission allow for modification of the PSA to allow for third-party storage expenses when APS was able to identify the costs involved. Under the Agreement, APS may include third-party storage expenses in the PSA "provided that APS files for approval to include any third-party storage contract with the Commission 90 days before it becomes effective." The Commission has allowed similar costs in other rate cases.

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15. Paragraph 9.1 allows APS to file for an increase in rates for environmental equipment installed at Four Corners. The filing date for this could be as late as January 1, 2019, while APS could file its next rate case as early as June 1, 2019, only five months later.
- a. Why would it not be better (especially from a workload perspective for all involved) for the Commission to eliminate paragraph 9.1 and instead just review these costs in APS's next rate case?

**RESPONSE:**

- a. Staff supports Paragraph 9.1 of the Agreement.

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16. Paragraph 9.3 states that parties will work to have the rates from the filing in paragraph 9.1 become effective by January 1, 2019.
- a. How will that be possible, when paragraph 9.1 states that APS can file its request for such a rate increase on the same date, i.e., no later than January 1, 2019?

**RESPONSE:**

- a. Section 9.1 indicates that the Docket shall remain open for the sole purpose of allowing APS to file a request that "its rates be adjusted no later than January 1, 2019 to reflect the proposed addition of Selective Catalytic Reduction ("SCR") equipment at Four Corners." This is not inconsistent with Section 9.3 which states that "The Signing Parties agree to use good faith efforts to process this rate adjustment request such that any resulting rate adjustment becomes effective no later than January 1, 2019, pursuant to Section 9.1."



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17. Paragraph X allows for the deferral of costs related to the Ocotillo Modernization Project ("OMP"). APS would be allowed to request recovery of these costs, plus interest, in its next rate case.
- a. Why does the Settlement Agreement not treat the Selective Catalytic Reduction deferred costs (see Section IX) at Four Corners in the same manner as the deferred costs of the OMP?

**RESPONSE:**

- a. Staff supports Section 10 as proposed.

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18. In its direct testimony, Staff was opposed to including OMP costs at this time.
- a. What has changed since the filing of Staff's direct testimony, that Staff is now not opposed to these costs?

**RESPONSE:**

- a. Staff obtained additional information between the time it filed its Direct Testimony and signed onto the Settlement Agreement. Whenever Staff enters a settlement, Staff evaluates the potential for success on the merits of any particular filed position relative to a compromise position that has been offered for settlement of the particular issue. Staff's ultimate adoption of a compromise position on one matter may be part of securing concessions with respect to other Staff recommendations as part of a larger settlement. As part of the analysis Staff performs to provide a reasonable recommendation for the Commission's consideration, Staff evaluates whether the final settlement agreement is reasonable and balanced for all parties, signatories and non-signatories, alike. Staff believes the provisions of the Agreement produce a fair, just and reasonable outcome that is in the public interest.

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19. Section XI deals with deferred costs related to changes in APS's property tax rate.
- a. Is this section exactly the same or different than the similar issue contained in APS's last rate case? If different in any way, please explain the difference(s) in detail.
  - b. In its direct testimony, Staff was opposed to including these costs. Why is Staff now not opposed?
  - c. Does Staff believe its direct testimony recommendation was flawed?

**RESPONSE:**

- a. No. Comparing the two rate case provisions in the current case addresses the issue similarly, but with some differences. The ability to defer the total amount of property tax expense, the treatment of the deferral once it is included in base rates and the interest rate applicable to the deferral are different in this case.
- b. Staff's adoption of a position in settlement that varies from a position taken in direct pre-filed testimony is a reflection of the give and take nature of settlement processes. Whenever Staff enters a settlement, Staff evaluates the potential for success on the merits of any particular filed position relative to a compromise position that has been offered for settlement of the particular issue. Staff's ultimate adoption of a compromise position on one matter may be part of securing concessions with respect to other Staff recommendations as part of a larger settlement. As part of the analysis Staff performs to provide a reasonable recommendation for the Commission's consideration, Staff evaluates whether the final settlement agreement is reasonable and balanced for all parties, signatories and non-signatories. Staff believes the provisions of the Agreement produce a fair, just and reasonable outcome that is in the public interest.
- c. No. Staff does not believe that its direct testimony was flawed.

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20. Section XII deals with the cost of service study. Please explain the purpose of having Section XII in the Settlement Agreement. The explanation should contain a detailed discussion of the benefits and drawbacks to each of the below customer classes of having the requirements of Section XII in the Settlement Agreement:
- a. Low income residential customers
  - b. Typical residential customers
  - c. Small commercial customers
  - d. Medium size commercial customers
  - e. Large commercial customers

**RESPONSE:**

Rule 408 precludes Staff from disclosing portions of the settlement discussions with respect to the purpose of this section and why it was included in the Agreement. Section XII requires APS to provide its cost of service study in its next rate case in an Excel spreadsheet with inputs linked to outputs so that inputs can be changed by parties as necessary to reflect their position in the case. It also requires APS to perform a specific allocation methodology; but does not preclude APS or others stakeholders from proposing alternative methodologies. The impact of the cost of service study on the various classes referenced above will depend upon the position taken by the particular party and the allocation methodologies proposed and ultimately utilized by the Commission. Paragraph 12 also ensures model transparency, where parties have access to the cost of service study in an Excel spreadsheet with inputs and outputs linked.



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21. In Section XIV, would Staff be opposed to adding an additional paragraph as follows:
- a. 14.3 APS shall report on and discuss its workforce planning at the Commission's annual Summer Preparedness Workshop, beginning in 2018. Such a requirement shall remain in effect until further notice by the Commission.

**RESPONSE:**

- a. Staff supports the Agreement. The Commission in its discretion can accept, reject, or modify this provision; however, to the extent a Signatory believes the change is a material modification to the Agreement, that Signatory would have the right to withdraw from the Agreement.

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22. Please explain in detail the purpose of the Self-Build Moratorium contained in Section XV.

**RESPONSE:**

Like all other provisions, this was included as part of the give and take of the Settlement process. Staff's ultimate adoption of a compromise position on one matter may be part of securing concessions with respect to other Staff recommendations as part of a larger settlement. As part of the analysis Staff performs to provide a reasonable recommendation for the Commission's consideration, Staff evaluates whether the final settlement agreement is reasonable and balanced for all parties, signatories and non-signatories. Staff believes the provisions of the Agreement produce a fair, just and reasonable outcome that is in the public interest.

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- 23.** Section XVI discusses the establishment of a Tax Expense Adjustor Mechanism. Does Staff expect any Federal income tax reform legislation to increase or decrease APS's annual Federal income tax expense?

**RESPONSE:**

Under the new administration, there is a possibility of tax reform, such as a reduction to corporate income tax rates, occurring before APS's next rate case that could benefit ratepayers, and the TEAM will allow any results of such tax reform to flow through to ratepayers until the Company's next rate case at which time the TEAM will terminate.

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24. For each rate listed in Section XVII, please discuss whether each is a totally new rate or a modification of an existing rate.

**RESPONSE:**

All of the rates listed in Section XVII are new.



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25. For each rate listed in Section XVII, please explain in detail how APS will advise and educate its customers of these rates.

**RESPONSE:**

Pursuant to Section XXVII of the Agreement, APS shall file an outreach and education plan and shall provide stakeholders with an opportunity for review and comment on the draft plan prior to completing its final plan.

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26. Paragraphs 17.5 and 17.6 discuss Rate Schedules R-2 and R-3, respectively. Both R-2 and R-3 are described as "three-part" rates.
- a. Does "three-part" refer to a basic service charge, a kWh usage charge and a kW demand charge? If yes, please explain in detail how customers will be educated on these two rate schedules, especially regarding the kW demand charge.

**RESPONSE:**

- a. Yes. See response to question 25.

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27. In paragraph 17.7, the #(2) phrase seems confusing; possibly a word(s) missing.

**RESPONSE:**

To the extent there is confusion regarding whether the “two or more qualifying secondary on-site technologies” must be purchased within 90 days of a customer enrolling in the rates – the 90 days does not apply to secondary technologies.

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28. In the piece of paragraph a. contained at the top of Page 19 of 32, there seems to be some punctuation missing.

**RESPONSE:**

There is a punctuation error, but the meaning of the phrase is not altered due to the missing punctuation. There should be a comma after the word "Program" on line 2 of Page 19.



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29. In paragraph 17.8, would Staff be opposed to having the on-peak periods being 4:00pm to 7:00pm; 3:30pm to 7:30pm; 3:00pm to 7:00pm; 4:00pm to 8:00pm? If yes, please explain in detail Staffs opposition to each set of hours.
- a. If the Commission were to mandate one of the above set of hours, which one would Staff prefer ("none" is not an acceptable answer)?
  - b. How did Staff consider seasonal time-of-use rates in the Settlement Agreement? Are they included in it? Please explain why or why not.

**RESPONSE:**

- a. In his Direct Testimony filed February 3, 2017 at page 79, Staff witness Smith supported an on-peak period of 2:00 p.m. to 7:00 p.m. However, Staff supports the Agreement. Staff's adoption of a position in settlement that varies from a position taken in direct pre-filed testimony is a reflection of the give and take nature of settlement processes. Staff's ultimate adoption of a compromise position on one matter may be part of securing concessions with respect to other Staff recommendations as part of a larger settlement. As part of the analysis Staff performs to provide a reasonable recommendation for the Commission's consideration, Staff considers whether the final settlement agreement is reasonable and balanced for all parties, signatories and non-signatories, alike. Staff believes the provisions of the Agreement produce a fair, just and reasonable outcome that is in the public interest.
- b. Yes, there are seasonal TOU rates in the Agreement. For more detailed information please see Appendix F for updated residential rate schedules.

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30. Please rank the above set of hours from least desirable to most desirable to Staff.
- a. In APS's existing time-of-use rate plans, what are the excluded holidays?

**RESPONSE:**

- a. Currently, there are six holidays that are included in the off-peak hours for some residential time of use rates. Those holidays are: New Year's Day, Memorial Day, Labor Day, Independence Day, Thanksgiving and Christmas. In the Agreement, in addition to the holidays just listed, new rates would include off peak hours for Martin Luther King Day, President's Day, Cesar Chavez Day, and Veteran's Day.

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31. Please explain in detail how Section XVIII will result in distributed generation customers being treated differently than they would have been treated without this section, thereby having these customers treated as contemplated per the outcome of the Value of Solar docket.

**RESPONSE:**

Staff believes that the treatment of distributed generation ("DG") customers in this section is consistent with the Value of Solar Docket.

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32. Paragraph 18.3 sets the export energy rate for year one. Paragraph 18.4 states that this year-one export energy rate was a result of settlement negotiations.
- a. How and when will the export energy rate for years two, three, four and five be set?
  - b. Does Staff have any estimates as to what the export energy rates will be for years two, three, four and five? If yes, please provide them.

**RESPONSE:**

- a. The export energy rate for years two, three, four and five will be set pursuant to the Plan of Administration attached to the Agreement in Appendix H.
- b. Pursuant to the POA the export rate cannot decline by more than 10% of the 12.9 cent recommended in the Agreement. For subsequent years in between rate cases, pursuant to the POA, the Company files an application to establish a new export rate which cannot decline by more than 10%.



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33. Section XIX delineates the availability of certain rates for APS's customers. Paragraphs 1.5.1 and 26.1 mention a customer education plan, information and outreach.
- a. Does APS currently have this education/information plan to adequately and properly explain all the APS rate options to its customers?
  - b. If no, why not? If no, would Staff be opposed to APS creating such a customer education/information plan and submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?
  - c. If APS does have such a plan, would Staff be opposed to APS submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?

**RESPONSE:**

- a. See response to question 25. Staff believes that APS currently has a plan but expects that changes to rate plans as a result of the Agreement are most likely not yet part of an existing education/information plan, since they have not been approved by the Commission yet.
- b. See response to question 25. Staff expects that changes to rate plans as a result of the Agreement are most likely not part of an existing education/information plan since they have not been approved by the Commission yet. The provisions in Section 19.1 are a result of give and take between the parties. Staff supports the provisions of the Agreement.
- c. See response to question 25. Staff expects that changes to rate plans as a result of the Agreement are most likely not yet part of an existing education/information plan, since they have not been approved by the Commission yet. The provisions in Section 19.1 are a result of give and take between the parties. Staff supports the provisions of the Agreement.

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34. The following questions pertain to the period after May 1, 2018:
- a. After May 1, 2018, will new customers be required to choose a time-of-use "TOU") rate or three-part demand rate ("Demand Rate") and be required to remain on this rate for at least 90 days, i.e., three billing periods? If yes, please explain in detail how this requirement is fair and beneficial to new customers?
  - b. If after May 1, 2018, new customers are required to choose a TOU or Demand Rate and remain on this rate for 90 days, would Staff be opposed to APS refunding (after the 90-day period) to each such customer the amount of money collected by APS that was in excess of what APS would have collected had the customer been on the typical non-TOU or non-Demand Rate, i.e., basic two-part rate? If yes, please explain in detail why.

**RESPONSE:**

- a. Yes. It is fair and beneficial because without 90 days of usage data the new customer would not have adequate information to make an informed decision regarding the rate plan.
- b. Staff supports the provisions of the Agreement. The provisions in the Agreement were the result of give and take among the parties. Staff believes that the provisions of the Agreement produce a fair, just and reasonable outcome that is in the public interest.

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35. Paragraph 23.3 has a phrase stating "At APS's option...".
- a. With this statement, how can the Commission and APS customers be assured that all customers will be treated equally and fairly by APS?

**RESPONSE:**

Paragraph 23.3 applies to large users that are relatively sophisticated. As such they are adequately situated to raise and address any issues that may arise if there is a genuine dispute as to the fairness of the execution of this provision by APS.

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36. Section XXVI relates to the effective date of new rates from this case. It seems that this Settlement Agreement would result in quite a few new rate options for customers.
- a. Would Staff be opposed to having the effective date of new rates in this case being the first day of the month following the month in which the Commission-approved customer education/information plan (see discussion of Section XIX above) was sent to all APS customers?
  - b. Would Staff be opposed to the Commission's requiring APS to send that information to customers prior to the tenth day of the month? If yes, please explain in detail Staff's opposition and how the Commission's not requiring this would be beneficial and fair to APS customers.

**RESPONSE:**

- a. If this question is referring to the rates set forth in section XVII it is Staff's understanding they will not go into effect until the education/information plan is developed and put into place as set forth in Section XXVII. It is Staff's further understanding that the education plan will be more than a simple mailing as the question appears to contemplate. The education plan will also consist of significant outreach efforts on the part of APS to customers to describe how the new rate plans work; given the customer's unique usage patterns, how the customer can save the most under the various rate options; and what tools are available to customers to monitor and control their usage so they can save even more.
- b. Staff supports the provisions of the Settlement Agreement. See also, response to subpart a. above.



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37. In paragraph 28.4 APS defines moderate and low income customers.

- a. For 2016, what was the median Arizona household income?
- b. For 2016, what was the federal poverty level?

**RESPONSE:**

- a. 2016 census data won't be released until September of 2017; however, the 2015 median Arizona household income is \$51,492.
- b. Poverty Thresholds for 2016 by Size of Family and Number of Related Children Under 18 Years are illustrated in the table below.

Size of family unit	Related children under 18 years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual):									
Under age 65.....	12,486								
Aged 65 and older.....	11,511								
Two people:									
Householder under age 65.....	16,072	16,543							
Householder aged 65 and older.....	14,507	16,480							
Three people.....	18,774	19,318	19,337						
Four people.....	24,755	25,160	24,339	24,424					
Five people.....	29,854	30,288	29,360	28,643	28,205				
Six people.....	34,337	34,473	33,763	33,082	32,070	31,470			
Seven people.....	39,509	39,756	38,905	38,313	37,208	35,920	34,507		
Eight people.....	44,188	44,578	43,776	43,072	42,075	40,809	39,491	39,156	
Nine people or more.....	53,155	53,413	52,702	52,106	51,127	49,779	48,561	48,259	46,400

Source: U.S. Census Bureau.

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- 38.** Paragraph 32.1 states that the LFCR opt-out rate option approved in the last decision will be removed. Why was it removed?

**RESPONSE:**

- a.** See the direct testimony of Ralph Smith starting on page 65.

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39. Please explain why residential customers on a demand rate should be subject to the LFCR charge.

**RESPONSE:**

- a. The LFCR addresses the under-recovery of fixed costs associated with the reduction in sales from energy efficiency and distributed generation. A demand rate does not shield a utility from the under-recovery of fixed costs attributable to EE and DG technologies. It is merely a billing option to better align costs with energy usage. Said differently, a customer on a demand rate who installed DG or EE technologies would still contribute to a company's under-recovery of fixed costs.

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40. Paragraph 32.2 states that for customers on a demand rate, the LFCR charge will be based on the customers' demand. Please provide examples for each of the customers below showing how each of their bills may be affected by this provision:
- a. Low demand customer
  - b. Medium demand customer
  - c. High demand customer

**RESPONSE:**

- a. Currently, the LFCR is billed as a percentage of a customer's bill. Staff recommended in its Direct Rate Design Testimony that the LFCR be applied to a customer's bill as a per kWh or kW rate. Staff does not yet know what the new rate will be for the LFCR but for illustrative purposes if a kW rate of \$0.50 is assumed then the rate impact would be as follows:
  - i. Low demand customer - 3kW ( $3 * \$0.50 = \$1.50$ )
  - ii. Medium demand customer – 7kW ( $7 * \$0.50 = \$3.50$ )
  - iii. High demand customer – 12kW ( $12 * \$0.50 = \$6.00$ )



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41. Please explain in detail how Commission approval of this Settlement Agreement (especially when compared to all the contrary recommendations in Staff's direct testimony; in particular Staff's agreement to a \$94.624 million net base rate increase as opposed to Staff's direct testimony recommendation of zero or \$26 million decrease) may be beneficial for each of the customer classes listed below:
- a. Low income residential customers
  - b. Typical residential customers
  - c. Small commercial customers
  - d. Medium size commercial customers
  - e. Large commercial customers

**RESPONSE:**

Please refer to page 18 of the testimony of Elijah Abinah in support of the Agreement and Section 1.5 of the Agreement both of which list the significant benefits of the settlement.

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42. Please explain in detail how Commission approval of this Settlement Agreement (especially when compared to all the contrary recommendations in Staff's direct testimony; in particular Staff's agreement to a \$94.624 million net base rate increase as opposed to Staff's direct testimony recommendation of zero or \$26 million decrease) may be detrimental to each of the customer classes listed below:
- a. Low income residential customers
  - b. Typical residential customers
  - c. Small commercial customers
  - d. Medium size commercial customers
  - e. Large commercial customers

**RESPONSE:**

Staff does not believe that the Settlement Agreement will be "detrimental" to any customer class. Please refer to page 18 of the testimony of Elijah Abinah in support of the Agreement and Section 1.4 of the Agreement both of which list the significant benefits of the settlement.

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43. Please explain in detail how the Commission not approving this Settlement Agreement (especially when compared to all the contrary recommendations in Staff's direct testimony; in particular Staff's agreement to a \$94.624 million net base rate increase as opposed to Staff's direct testimony recommendation of zero or \$26 million decrease) but instead having this case be fully litigated may be beneficial for each of the customer classes listed below:
- a. Low income residential customers
  - b. Typical residential customers
  - c. Small commercial customers
  - d. Medium size commercial customers
  - e. Large commercial customers

**RESPONSE:**

Staff supports the positions in the Settlement Agreement. Please refer to page 18 of the testimony of Elijah Abinah in support of the Agreement and Section 1.5 of the Agreement both of which list the significant benefits of the settlement.

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44. Please explain in detail how the Commission not approving this Settlement Agreement (especially when compared to all the contrary recommendations in Staff's direct testimony; in particular Staff's agreement to a \$94.624 million net base rate increase as opposed to Staff's direct testimony recommendation of zero or \$26 million decrease) but instead having this case be fully litigated may be detrimental to each of the customer classes listed below:
- a. Low income residential customers
  - b. Typical residential customers
  - c. Small commercial customers
  - d. Medium size commercial customers
  - e. Large commercial customers

**RESPONSE:**

A fully litigated case would take significant time and resources by all of the parties and Signatories to this case, as well as the Commission. Many of the benefits of the Agreement would likely not be possible in a fully litigated case.



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- 45.** In APS's application for this case, APS requested approval of three-part demand rates that would be mandatory for all customers. It seems that the Settlement Agreement does not contain any such mandatory rates for either existing or new customers (except for the 90-day requirement for new customers). Is this correct?

**RESPONSE:**

That is correct. The Settlement Agreement does not contain mandatory demand rates for either existing or new customers.

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46. In APS's next rate case, if APS plans to again request mandatory three-part demand rates (if such rates are not approved by the Commission in this case), would Staff be opposed to having an ordering paragraph in the decision in this case that ordered APS to submit for Commission approval an education plan for such rates, with that plan being submitted at least 360 days prior to the submittal of APS's application for its next rate case? If yes, please explain in detail.

**RESPONSE:**

Staff believes Section XXVII of the Agreement addresses an outreach and education plan for all of the new rates that are being recommended in Section XVII of the Agreement, including the three-part demand rates which should be finalized prior to the new rates in Section XVII going into effect, and more than 360 days prior to the Company's next rate case.

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47. Is Staff completely satisfied with all aspects of Appendix H? If no, please explain in detail.

**RESPONSE:**

Staff supports all aspects of the Agreement.